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CENTRAL INTELLIGENCE AGENCY

Office of External Affairs
Washington, D. C. 20505

Telephone: 351-6121 6 May 1982

TO: Ms. Diana Smith
Committee on Foreign Relations
United States Senate
Washington, D.C. 20510

Diana:

Enclosed are the articles you requested
on the Soviets. Hope these are helpful.

Sincerely,



Legislative Liaison

Enclosures

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Soviet Financing of Grain Purchases

Hard currency problems are forcing Moscow to turn to costly short-term financing to pay for Western grain. The financial pinch is especially tight now because of the fall in gold and oil prices and the continuing need to import grain at a record pace. During the last nine months, the Soviets have raised more than \$1 billion in short-term credits to finance grain purchases. Financing charges have added approximately \$100 million to their grain import bill. Moscow's continued use of short-term credit will depend in large measure on the policy stance of grain-exporting countries and the willingness of major grain-trading firms to provide direct and indirect lines of credit.

The USSR's Need for Grain

To help offset last year's harvest disaster, the Soviets have bought nearly 44 million tons of the 45 million tons of grain we expect them to import by 30 June. Almost 29 million tons of grain were shipped by the end of February. Soviet trade officials have announced plans to accelerate the pace of deliveries this spring. Moscow's remaining purchases—about 1 million tons—will come mostly from the United States.

The USSR is benefiting from a buyer's market. A record world grain crop forced wheat and corn prices in March to their lowest level in almost two years. Indeed, with non-Soviet import demand weak, Moscow has considerable negotiating leverage with exporters hard pressed to move existing surpluses before this year's summer crops are harvested.

Financing Grain Imports

Unlike the past, the Soviets have been forced to seek credit from the international banking community for grain purchases. Falling prices of oil and gold have reduced the amount of hard currency available to pay for grain purchases that may exceed \$6 billion in the current marketing year.

Three major sources of credit are open to Moscow:

- *International grain trading companies* are able to provide financing because of their longstanding credit relations with major banks. By extending short-term credit to purchasers, using the firm's line of credit, the trader can profit from both the sale and the credit arrangement. The companies can also help arrange direct credit between banks and grain buyers.
- *Commercial banks* independently will provide short-term, unsecured loans to grain-buying countries that are deemed creditworthy. Interest on loans is pegged to the US prime rate or the London Interbank Offered Rate (LIBOR) on most US-financed grain. Both prime and LIBOR rates have exceeded 15 percent for most of the past year.
- *Government financial assistance* is available from some exporters to promote grain sales. Support can take a variety of forms, from providing direct credit to guaranteeing private loans. Canada and Australia both have the ability to offer government guaranteed loans.

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USSR: Grain Imports

	July 1981-June 1982		July-September 1982			
	Expected Volume		Actual Purchases and Commitments to Date		Expected Additional Purchases	
	Million Tons	Million US \$ ^a	Million Tons	Million US \$ ^a	Million Tons	Million US \$ ^a
Total	45.0	6,145	43.9	5,995	11.0	1,480
United States	16.0	2,150	15.3	2,050	1.5	200
Argentina	12.5	1,675	12.5	1,675	5.5	740
Canada	8.5	1,150	8.5	1,150	2.2	295
European Community	3.0	500	3.0	500	0.5	70
Australia	2.6	350	2.6	350	1.3	175
Eastern Europe ^b	1.2	160	1.0	135		
Other ^b	1.2	160	1.0	135		

^a Estimated.^b Soviets do not pay hard currency for all of these purchases.

While the USSR has been able to get credit, the terms have been particularly harsh. The Soviets have sought payback periods of 360 days, but so far no loan has exceeded 180 days and most have 150-day terms. Furthermore, the Soviets have had to pay interest rates exceeding 15 percent.

The Soviets have, in a few instances, attempted to barter for grain.

the USSR did arrange a barter deal with Thailand—50,000 tons of fertilizer for 100,000 tons of Thai corn. Because barter deals are difficult to arrange, they are likely to continue to account for only a small share of Soviet grain imports.

Activity to Date

Over one-fifth of the grain ordered from Western exporters since mid-August 1981 has been financed with short-term credits. Most of the credits—about \$900 million—have been used to pay for US grain. West European, US, and Arab banks have participated in the financing. Multinational grain-trading companies have played a major role in lining up loans from the banks, and one firm has extended its own \$125 million credit line to the USSR. In addition, the Australian Wheat Board has granted a \$170 million government-guaranteed loan to exporters for grain sales to the USSR. The quasi-governmental West German export credit insurance company, Hermes, and the French Government have also offered guarantees on loans to the Soviets for purchases of US grain.

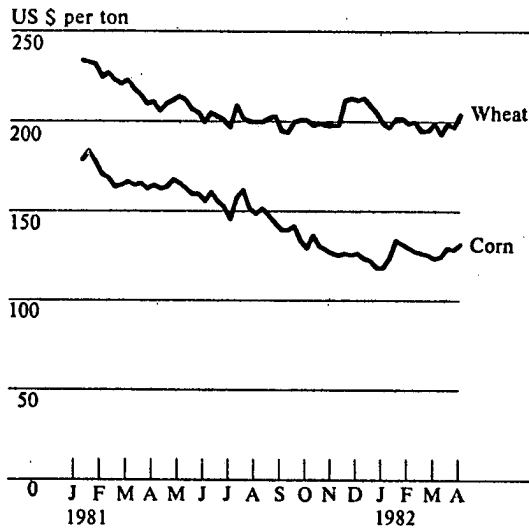
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Export Prices of US Grains^a



^aC.i.f. Rotterdam

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The current financial crisis in several East European countries has prompted most US bankers to limit new lending activity to the USSR. Bankers may also be responding to US policy and public sentiment which they interpret as discouraging trade with the Soviets. Whatever the reason, after initial willingness to make short-term loans for grain, US banks have become increasingly reluctant to lend directly to the Soviets.

Non-US banks, on the other hand, have been attracted to the lucrative Soviet deals which have included interest rates as high as 3.75 percent over LIBOR. In today's market, the more creditworthy countries are paying about 0.5 percentage point over LIBOR.

In early March, the deputy director of the Soviet grain-buying agency stated that future purchases would be made only on credit. Subsequently, the Soviets have indicated to Argentina—the primary grain supplier to the USSR last year—that a purchase of 1 million tons of corn (worth about \$100 million) is contingent on financing assistance. In late March, Soviet officials began negotiations with the Argentine Central Bank for a \$300 million credit with terms of 150 to 240 days for the purchase of 3 million tons of grain. Although the Argentines have indicated they are willing to assist the Soviets in obtaining this loan at commercial terms, the Falklands crisis, soaring domestic inflation and interest rates, and the weak peso will likely preclude Buenos Aires from offering any sizable credits.

Outlook

The USSR will probably order an additional 11 million tons of grain worth about \$1.5 billion—virtually all from the United States, Canada, and Argentina—for delivery during July-September.

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Because its hard currency shortage shows no sign of easing, the USSR is likely to continue to rely heavily on short-term Western bank credits to finance its grain imports over the next few months. To the degree that Moscow relies on credit, its potential vulnerability to Western financial sanctions would mount. As long as the world grain market remains in surplus—and the Soviets are able to borrow additional funds—the potential pressures on Moscow should be manageable.

the Soviets to continue purchases of lower priority items. On the negative side, interest charges on grain imports add substantially to the cost of imported food. The use of short-term credit may, on balance, benefit Moscow if the current credit crunch is only a temporary phenomenon. If financial pressures persist, however, Soviet financial managers face a constant problem of rolling over debt.

Financing grain purchases with expensive short-term credit confronts Soviet policymakers with difficult choices. On the positive side, such arrangements stretch hard currency supplies, thus allowing

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